AR14

Homco Industries Ltd. Annual Report 1974



Homco Industries Ltd.

Directors

CARL DAY JOHNSON
President of the Company and Chairman of the Board

WILLIAM HUNTER POWELL
Consultant

PERCY HOWARD DAVIS
President of Percy H. Davis Limited, Customs Brokers

GEORGE DUNCAN HILL
Senior Partner, Messrs. Hill, Klassen, McLellan & Ball, Barristers and Solicitors

DONALD ALEX ROSS, C.A.
President, Farmers & Merchants Trust Co. Ltd.

JOHN ALEXANDER McCLEERY, F.C.A.
President, J. A. McCleery Limited, Financial Consultants

ABRAHAM SALEM BERDAY
Consultant to the Communications Group, Agra Industries Limited

Officers

CARL DAY JOHNSON
President

DONALD P. BROWN, C.A.
Vice-President Finance

CHARLES A. FIFORD, C.A.
Vice-President Operations

DERRIL T. WARREN, LL.B., LL.M.
Secretary

Corporate Head Office

2576 Highway 97 North
Kelowna, B.C.

Auditors

Winspear Higgins Stevenson & Co.,
1505 Robson Street,
Vancouver, B.C.

Transfer Agents and Registrar

The Royal Trust Co.,
Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

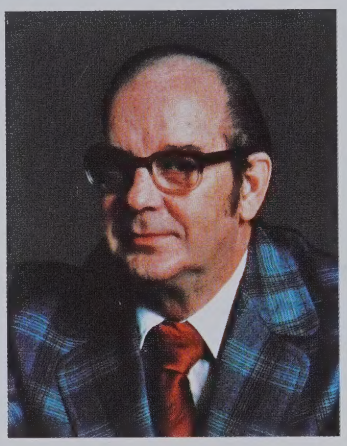
Bankers

The Bank of Montreal
The Mercantile Bank of Canada

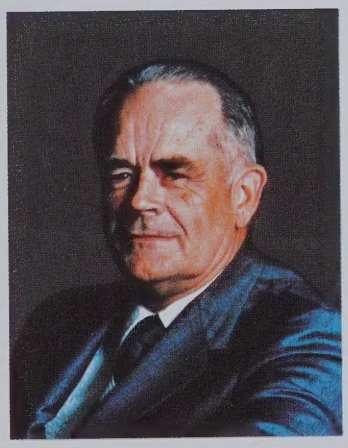
Stock Listings

Toronto Stock Exchange
Montreal and
Canadian Stock Exchange

Directors



CARL DAY JOHNSON



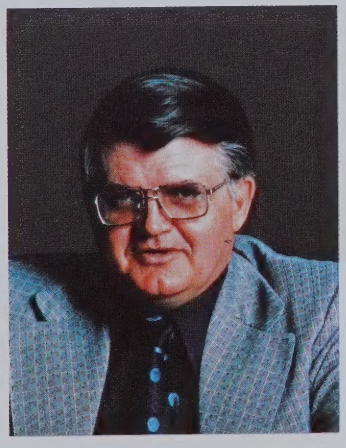
WILLIAM HUNTER POWELL



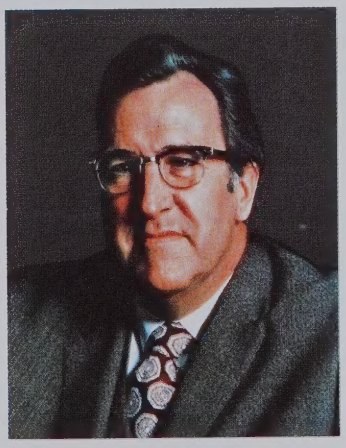
PERCY HOWARD DAVIS



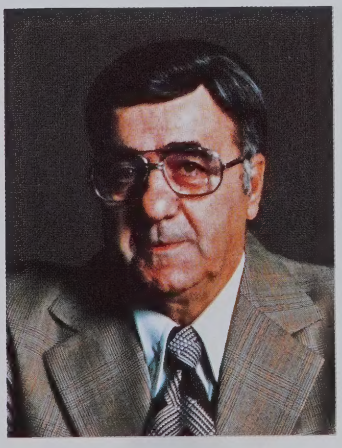
DONALD ALEX ROSS



GEORGE DUNCAN HILL



JOHN ALEXANDER McCLEERY



ABRAHAM SALEM BERDAY

President's Report to the Shareholders

Fiscal 1974 was a very difficult year for your Company and your Management. Indications in early 1974 were that the year would be a very buoyant and profitable year for the mobile home industry and Homco Industries Ltd. in particular. We were encouraged in that the first quarter of 1974 was profitable for the first time in the Company's history.

However, many adverse conditions were encountered starting in late May and from that time through the end of the year, there was a pronounced deterioration of sales and profits. The most significant factor was the tight money situation that occurred at this time plus the spiralling cost of money — this occurred both at the retail marketing level and at the manufacturing and wholesale level. Down payment requirements for the retail customers were increased by financial institutions and credit policies were most severe. Wholesale money available to dealers became very costly and, in many cases, was not available under any conditions. The Eastern market became severely depressed resulting in many dealer failures in the industry. The Northern British Columbia mobile home market, which is normally most buoyant, became very depressed as a result of the high unemployment rate in the lumber and mining industries.

It is significant that domestic shipments of mobile homes increased by 37% during the first six months of 1974 over the corresponding period of 1973. Shipments during the last half of 1974 decreased by 9% over the corresponding period of 1973. Homco shipments of mobile homes followed the general market trend of the industry.

Homco shipments for 1974 were 1,741 homes compared to 1,548 homes shipped in 1973. Sales for the year were $24,560,000 compared to $19,795,000 for 1973, an increase of 24%. The increase in sales was due primarily to a higher percentage of double wide units, the trend in the market towards a larger and higher line product, and inflation — with inflation being the biggest single factor.

We were able to maintain our gross profit margins during 1974, but our selling, administrative and interest costs reflected a substantial increase over 1973. The increased administrative and selling expenses, in part, were due to higher salaries and consulting fees and the fact that we were unable to adjust costs to reflect lower than budgeted sales. Increased interest and finance costs were due to the drastic increase in the cost of money and the higher than normal inventories we carried into 1975. The bankruptcy of a Quebec dealer resulted in an additional expense of approximately $200,000. These factors prevented the Company from maintaining any profit margins for 1974.

The Estevan, Saskatchewan plant and the Kelowna, British Columbia plant both operated at near capacity for the year resulting in satisfactory sales and profits. The operation of the Pembroke, Ontario plant was most disappointing in that they sustained a sizeable operating loss for the year.

Our Retail Division, which has been a consistent profit centre over the years, showed a small operating loss for the first time in our history. The Prairie division and the Southern British Columbia division retained satisfactory earnings for the year. The Northern British Columbia division experienced substantial losses for the year, which offset the areas that were profitable. Increased selling costs coupled with higher than normal inventories and drastic increases in wholesale finance charges all contributed to the lack of profits for the Retail Division.

Although 1974 was a disappointing year for our Company, your Management is optimistic for 1975. Many problems that plagued the industry during the past year have been resolved. The availability of money for retail financing from the finance companies and banks has increased substantially. The cost of borrowing has been reduced by most financial institutions and the down payment and credit requirements have eased. The Federal Government has qualified mobile homes, under certain conditions, for the $500 first time home owners grant; and mobile homes will also qualify in some cases for the Registered Home Ownership Savings Plan. In view of the lower cost of mobile homes as compared to conventional homes, this grant becomes quite significant. The federal sales tax was lowered from 11 and 12 per cent to 5 per cent on the majority of mobile home building components and the supply of raw materials and component parts has stabilized considerably along with the prices. These factors should stabilize prices on mobile homes for the near future.

Management feels that the overall market for mobile homes is going to continue to be strong and to show further penetration into the total residential market. We are adding two more retail lots in Western Canada in the buoyant market areas and we are considering establishing two or three retail locations in Quebec in the coming months.

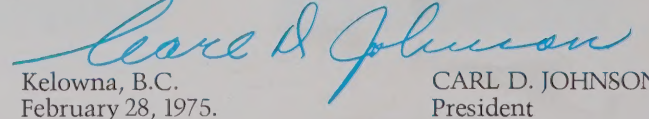
It is expected that your Company will show a loss for the first quarter of 1975. However, your Management expects that the second and third quarters will show definite marketing strength and that the Company will return to a profitable position during the year. The Estevan, Saskatchewan plant and the Kelowna, British Columbia plant have a good backlog of orders and are expected to operate at near capacity for most of the year. The Pembroke, Ontario plant did not produce any homes during January and February, but will commence operations in early March and should operate at 50 per cent capacity or better for the balance of the year. The new manufacturing plant in Camrose, Alberta will be operational in June 1975 and will be in a start-up position for the last six months of this year. The plant will contribute to sales, but is not likely to contribute to profits during this start-up period.

Management made the decision to return to the General Manager concept at the manufacturing level replacing the Plant Management by Committee concept that had been in effect for the past one and one half years. All manufacturing plants are now operating with experienced General Managers, with a resultant increase in efficiency and control.

The Directors, due to the rapid growth and expansion of our Company, recognized the need for strengthening management at the senior level. As a result of this decision, we have appointed a Vice President of Finance, a Vice President of Operations and a new Company Secretary. This group, working under the President, will form the Company Management Committee.

1975 will be a year of effecting operating economies and reducing costs where possible. We have no major capital expenditures projected for the year, except for the completion of our Camrose plant and the expansion of the retail division.

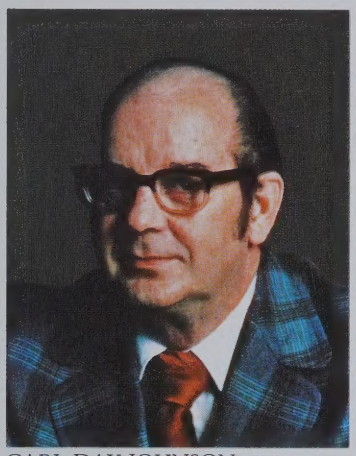
1975 will be a year of consolidation and I am confident our performance will show an improvement over the past year.



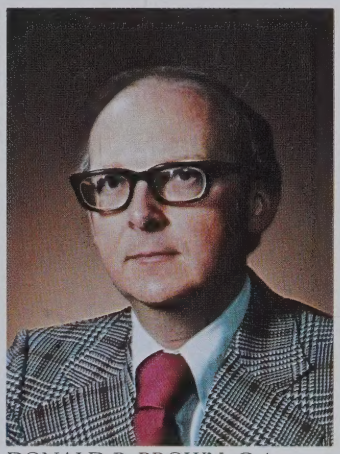
Kelowna, B.C.
February 28, 1975.

CARL D. JOHNSON
President

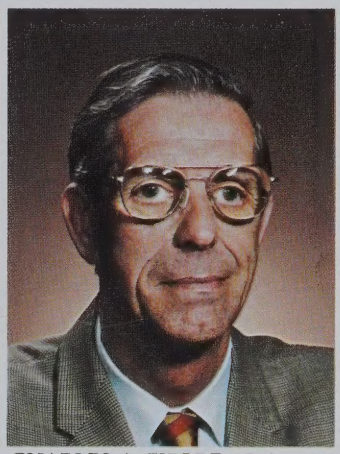
Corporate Officers



CARL DAY JOHNSON
President and Chairman of the Board



DONALD P. BROWN, C.A.
Vice-President Finance



CHARLES A. FIFORD, C.A.
Vice-President Operations



DERRIL T. WARREN, LL.B., LL.M.
Secretary



Corporate head office building in Kelowna, B.C.

Manufacturing







1



2



3

The Manufacturing Division plants located at Kelowna, B.C.; Estevan, Saskatchewan; and Pembroke, Ontario are situated to serve the expanding market for mobile homes, both single wide and double wide. Our Camrose, Alberta plant, which is now under construction, will add to the Company's ability to expand our markets with additional products to consumers.

The attention to quality and workmanship, which has been the keystone to Homco's success, has been continued in 1974; and we believe the several unique features of construction — monocoque construction and sprayed on foam insulation — together with continued emphasis on quality control, has proved that the public has accepted our products as leaders in the mobile home industry.

In 1974 we began to seek approval for our homes under the exacting National Building Code A277 program and the Central Mortgage and Housing qualifications. These steps will illustrate once again that it is our intention to build a product meeting the highest standards of manufactured housing in the industry. Through the co-operation of our labour force and training programs, we have begun to build and inspect all component parts in an "off line" build concept which will improve productivity in each plant and, at the same time, improve the quality of our finished product.

Today's consumers have become very conscious of obtaining lasting value in their purchases. We feel that we have met the demands of our discriminating buyers and will continue to innovate manufacturing techniques and designs to satisfy this challenge.

Production capacity was not expanded in 1974, however there was a 25 per cent increase over 1973 in square footage production.

During 1974, the production facilities produced in excess of ten units daily during peak periods. It is, however, the policy of your Company not to sacrifice quality for quantity.

Together with a well-trained labour force, the application of positive purchasing standards for materials, excellent design and compliance to the C.S.A. Z-240 code, our success will be assured and our employees and shareholders can be proud of their product and its position in a viable industry.



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1. *Camrose Plant under construction*
2. *Kelowna Plant*
3. *Estevan Plant*
4. *Pembroke Plant*

Auditors' Report

To the Shareholders of Homco Industries Ltd.

We have examined the consolidated balance sheet of Homco Industries Ltd. and its subsidiaries as at December 30, 1974 and the consolidated operating statement, statements of shareholders' equity and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 30, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Winspear Higgins Stevenson & Co.

Vancouver, B.C.
February 28, 1975.

Winspear Higgins Stevenson & Co.,
Chartered Accountants

Consolidated Operating Statement

Statement I

	Year ended December 30, 1974	1973
Net Sales	$24,559,862	$19,794,407
Other Income	536,248	429,820
	25,096,110	20,224,227
Cost and Expenses		
Cost of Goods Sold	20,418,820	16,432,032
Selling and Administrative Expenses	3,873,561	2,422,074
	24,292,381	18,854,106
Earnings from Operations	803,729	1,370,121
Interest and Finance costs	808,297	359,949
Earnings (loss) before Income Taxes	(4,568)	1,010,172
Income Taxes (recovery)	(9,122)	417,672
Net Earnings before Extraordinary Item	4,554	592,500
Extraordinary Item		
Gain on Disposal of Land, net of income taxes of $32,590	—	95,212
Net Earnings for Year	$ 4,554	$ 687,712
Earnings per Common Share - Earnings before Extraordinary Item	$.01	$.98
—Extraordinary Item	—	.16
—Net Earnings	$.01	$ 1.14
Weighted Average of shares outstanding during year	840,600	603,100

The accompanying notes form part of this statement.

Consolidated Statement of Shareholders' Equity

Statement II

Years ended December 30, 1974 and 1973

	Common Stock				
	Class A Shares	Class B Shares	Amount	Contributed Surplus	Retained Earnings
Balance, December 30, 1972	540,600	—	$ 770,705	$ 500,052	$ 1,201,076
Add (deduct)					
Proceeds of public issue, net (restated from $1,551,655)	300,000	—	1,522,040	—	—
Net Earnings for year	—	—	—	—	687,712
Dividends	—	—	—	—	(111,885)
Tax on portion of 1971 Undistributed Surplus	—	—	—	—	(19,794)
Government Grant	—	—	—	8,907	—
Balance, December 30, 1973	840,600	—	2,292,745	508,959	1,757,109
Add (deduct)					
Share Conversion, net *(Note 6)*	(132,553)	132,553	—	—	—
Net Earnings for year	—	—	—	—	4,554
Dividends	—	—	—	—	(183,098)
Tax on portion of 1971 Undistributed Surplus	—	—	—	—	(6,000)
Balance, December 30, 1974	708,047	132,553	$ 2,292,745	$ 508,959	$ 1,572,565

The accompanying notes form part of this statement.

Consolidated Statement of Changes in Financial Position

Statement IV

	Years ended December 30, 1974	1973
Source of Working Capital		
Operations		
Net Earnings before Extraordinary Item	$ 4,554	$ 592,500
Non-cash charges:		
Depreciation and Amortization	411,148	284,948
Deferred Income Taxes	62,818	104,064
	478,520	981,512
Sale of Shares	—	1,522,040
Federal Government Grants	7,231	7,126
Long-term Debt - net	23,835	249,108
Sale of Land	23,000	645,480
Notes and Agreements Receivable	545,480	—
	1,078,066	3,405,266
Application of Working Capital		
Additions to		
Land, Buildings and Equipment - net	1,739,680	1,407,092
Start-up Costs	58,885	64,815
Goodwill	78,000	—
Increase in Notes and Agreements Receivable	—	487,620
Increase in Cash Surrender Value of Life Insurance	1,701	1,659
Dividends	183,098	111,885
Tax on portion of 1971 Undistributed Surplus	6,000	19,794
	2,067,364	2,092,865
Working Capital increase (decrease)	$ (989,298)	$ 1,312,401
Working Capital increase (decrease) by components		
Accounts Receivable	$ (297,172)	$ 1,398,250
Federal Government Grants	7,231	—
Income Taxes Recoverable	303,286	—
Agreements for Sale - current portion	(100,000)	100,000
Inventories	1,674,944	1,933,543
Prepaid Expenses	34,082	28,033
Bank Overdraft and Operating Loans	(1,192,726)	(837,687)
Notes Payable - Mobile Homes	(1,072,061)	(698,184)
Accounts Payable and Accrued Liabilities	(503,047)	(399,040)
Long-term Debt - current portion	(40,300)	(159,721)
Dividends Payable	(49,243)	—
Income Taxes Payable	245,708	(52,793)
Working Capital increase (decrease)	$ (989,298)	$ 1,312,401

The accompanying notes form part of this statement.

Consolidated Balance Sheet

ASSETS	December 30, 1974	1973
Current Assets		
Accounts Receivable		
Trade	$ 1,945,832	$ 2,243,004
Federal Government Grants	7,231	—
Income Taxes Recoverable	303,286	—
Agreements for Sale Receivable within one year	—	100,000
Inventories *(Note 3)*	7,197,003	5,522,059
Prepaid Expenses	120,523	86,441
Total Current Assets	9,573,875	7,951,504
Notes and Agreements for Sale Receivable, less amounts receivable within one year	—	545,480
Federal Government Grants Receivable, less amounts due within one year	63,085	70,316
Property and Equipment, at cost		
Land and Improvements	1,019,908	842,982
Buildings	2,490,900	2,065,435
Machinery and Equipment	1,372,549	1,059,262
	4,883,357	3,967,679
Less: Accumulated Depreciation and Amortization	912,718	633,076
	3,970,639	3,334,603
Construction in Progress Plant Buildings and Land	759,927	—
	4,730,566	3,334,603
Deferred Charges and Other Assets	255,736	207,581
	$14,623,262	$12,109,484

ON BEHALF OF THE BOARD:

Director

Director

The accompanying notes form part of this statement.

Statement III

LIABILITIES AND SHAREHOLDERS' EQUITY	December 30, 1974	December 30, 1973
Current Liabilities		
Bank Overdraft and Operating Loans *(Note 4)*	$ 2,526,982	$ 1,334,256
Notes Payable - Mobile Homes (secured)	2,993,171	1,921,110
Accounts Payable and Accrued Liabilities	2,594,323	2,091,276
Current portion of Long-term Debt	311,094	270,794
Dividends Payable	49,243	—
Income Taxes Payable	33,598	279,306
Total Current Liabilities	8,508,411	5,896,742
Long-term Debt, due after one year *(Note 5)*	1,263,253	1,239,418
Deferred Income Taxes	477,329	414,511
Total Liabilities	10,248,993	7,550,671
Shareholders' Equity		
Share Capital *(Note 6)*	2,292,745	2,292,745
Contributed Surplus *(Note 2)*	508,959	508,959
Retained Earnings	1,572,565	1,757,109
	4,374,269	4,558,813
	$14,623,262	$12,109,484

Notes to Consolidated Financial Statements

December 30, 1974

1. Summary of significant accounting policies

(a) Principles of consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in Consolidation.

(b) Acquisitions
During the year ended December 30, 1974 the Company acquired four businesses related to the mobile home industry which have been accounted for as purchase transactions. The operations of these businesses have been consolidated from the effective dates of acquisition. The following is a summary of the disposition of the purchase consideration:

TOTAL CASH PURCHASE CONSIDERATION	$391,826
VALUE OF NET ASSETS ACQUIRED	313,826
GOODWILL	$ 78,000

Goodwill is being amortized over 10 years on a straight-line basis and the unamortized balance of $72,751 is classified with Deferred Charges and Other Assets in the Balance Sheet.

(c) Inventories
Raw Materials, Work-in-Process and Finished Goods are valued at the lower of cost and net realizable value.

(d) Depreciation
The cost of property and equipment is depreciated or amortized over the estimated useful life of each item using the straight-line method. The estimated economic lives used to determine annual rates of depreciation and amortization are subject to periodic review and revision to assure that the cost of the respective assets will be written off over their economic lives, which are as follows:

Land improvements, leasehold improvements, sales lot equipment and office equipment	10 years
Buildings (plant)	30 years
Buildings (sales offices)	20 years
Plant Equipment (major items) and automotove equipment	5 years
Plant Equipment	3 years

(e) Maintenance and repairs and property retirements.
The cost of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals and betterments of properties are capitalized and depreciated over the remaining or extended estimated useful lives of the properties. Gains or losses realized upon disposition of properties are taken into operations.

(f) Start-up costs.
The costs of establishing new operations, manufacturing plants and retail locations which are not related to the acquisition of land, buildings and equipment have been deferred. Such costs are amortized on a straight-line basis over a three year period following the commencement of operations. Start-up costs having an unamortized balance of $160,568 are classified with Deferred Charges and Other Assets in the Balance Sheet.

(g) Development costs of new models.
The Company deducts the development costs of new models in the year incurred for financial reporting and income tax purposes.

(h) Warranty costs.
The costs of service and repair by the Company or its dealers under product warranty provisions are recognized at the time such services and repairs are performed by the Company or upon receipt of authorized warranty claims from dealers.

(i) Income Taxes.
The Company reports certain amounts of expense (principally depreciation and start-up costs) for income tax purposes in periods different from when such amounts are reported for financial accounting purposes. Reported net income is not affected by this practice because provision is made for the related net deferral of taxes on income.

(j) Earnings (loss) per share.
Earnings or loss per share is based on the weighted average number of shares of common stock outstanding during the respective years.

2. Federal Government Grants
The Company qualified for area development incentive grants with respect to the establishment of its Kelowna, B.C. Plant; its Pembroke, Ontario Plant and the extension of its Estevan, Saskatchewan Plant. The amount of the grant entitlement ($476,023) has been classified under Contributed Surplus in the Balance Sheet.

3. Inventories entering into the determination of cost of sales are classified as follows:

	1974	1973
Raw Materials	$1,738,329	$2,210,730
Work-in-Process	102,197	161,431
Mobile Homes	5,356,477	3,149,898
	$7,197,003	$5,522,059

4. Bank operating loans are secured by the assignment of certain life insurance policies, by a general assignment of book debts, and by the assignment of inventories as provided under Section 88 of the Bank Act together with a debenture providing a floating charge over all assets, subject to prior security as detailed in Note 5.

5. Long-term debt.

	1974	1973
Mortgages and Agreements Payable at interest rates from 9% to 12-1/2%	$ 574,347	$ 410,212
Debenture and Loan Agreement with interest at prime plus 2%, payable in quarterly principal instalments of $50,000 until due in 1980 - secured by certain fixed assets	1,000,000	1,100,000
	1,574,347	1,510,212
Deduct principal instalments payable within one year	311,094	270,794
	$1,263,253	$1,239,418

6. Share Capital
Pursuant to a special resolution passed on April 19, 1974 the capital structure of the Company was altered to the following authorized convertible common shares.

1,250,000 Class A (Issued and outstanding 708,047; 1973 - 840,600)

1,250,000 Class B (Issued and outstanding 132,553; 1973 - NIL)

The shares are inter-convertible on a share for share basis and the rights of each class are identical. Both classes of shares rank equally as to dividends, but the Directors may elect to declare and pay a dividend on the Class B shares out of tax-paid undistributed surplus on hand, or out of 1971 capital surplus on hand, provided that a cash dividend is declared and paid on the Class A shares in an amount equal to the sum of the cash dividend on the Class B shares plus the tax paid to create the tax-paid undistributed surplus.

7. Contingent liabilities.
The Company is contingently liable as endorser of customers' notes in the amount of approximately $9,250,000; 1973 - $11,139,249. The Company has not incurred any net expense resulting from these endorsements during the six years ended December 30, 1974. The Company is contingently liable under the terms of Dealer wholesale repurchase agreements with finance companies in the amount of approximately $350,000.

8. The total remuneration of Directors in 1974, including salaries of officers who are also Directors, amounted to $87,272; 1973 - $80,802.

Production

1



2



3



1. Continuous floor coverings help make mobile home living care-free.

2. Exclusive to Homco, foamed in place urethane insulation provides superior insulation and a completely sealed unit.

3. Extra care is taken with the choice of fittings and with their installation.

4. An uncluttered exterior of easy to maintain materials is a major attraction in a Homco home.

5. Our spacious factories permit assembly line production techniques.

4



5



Production
(thousands of square feet)



Sales

Marketing for the Company is handled through separate sales teams for the retail and manufacturing divisions.

The Western Retail Division's head office is in Kelowna, B.C. at the Corporate Offices and from this location controls the 17 retail lots owned by Homco in Western Canada. These lots operate under the names of Commonwealth Mobile Homes, Riverside Mobile Homes, Duncan Mobile Homes Sales and Lakewood Trailer Sales Ltd. Twelve of the company owned retail sales lots are in B.C., two are in Alberta, and three are in Saskatchewan.

1975 expansion plans include additional company owned retail sales lots in Camrose, Alberta and Castlegar, B.C. It is also our intention to add significantly to the independent dealer organization during the year.

Also underway for 1975 is the addition of an Eastern Retail Division which will set up operations in the Province of Quebec. This objective is being aggressively pursued at this time with the intention of having two or three company owned retail locations in full operation by mid-year.

All members of the sales teams of both retail divisions are participating in an intensive sales training program designed to develop new salesmen and to establish professionalism at all levels of Homco's sales force in order to reinforce the Company's position as a major retailer in Canada's mobile home industry.

The Manufacturing Division has a sales team at each factory to serve both company owned retail lots and independent dealers.

Across Canada the Company sells mobile homes under the brand names of Ambassador, Diplomat, Statesman and Embassy to more than 75 independent dealers with more than 150 sales lots.

All company owned retail sales lots, and most independent retail sales lots, are complete sales and service centres capable of providing for all the customer's needs including delivery, set up and after sale service of the home selected. After sale service is often the most important aspect of every home sold, and many sales are made by virtue of the Company's excellent reputation for quality and service.

Every lot selling Homco mobile homes maintains a service department that is staffed and trained to provide the prompt and effective service so important in this time of consumer awareness and in maintaining our reputation for value, service and quality.







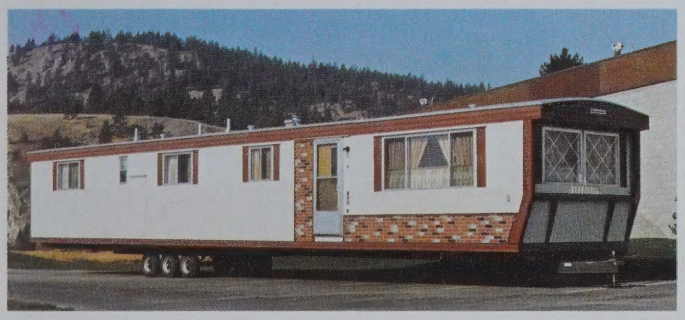




Mobile Home Shipments









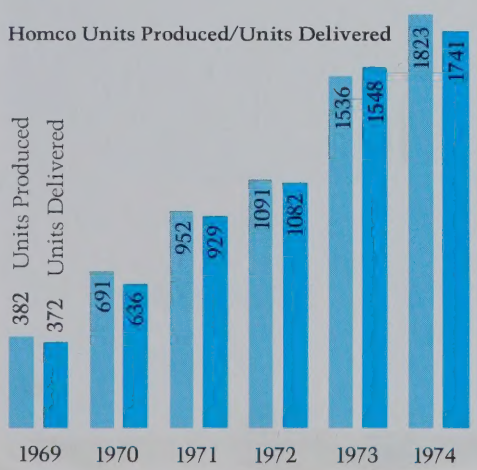
Total Canadian Shipments

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Domestic	28,690	25,636	20,314	15,019	9,324	9,151	6,302	4,362	3,215	3,395	2,152
Estimated Imports	4,400	3,591	4,695	3,886	2,948	3,602	2,848	2,284	1,473	1,784	1,960
Total Mobile Homes	33,090	29,227	25,009	18,905	12,272	12,753	9,150	6,646	4,688	5,179	4,112

Homco Participation

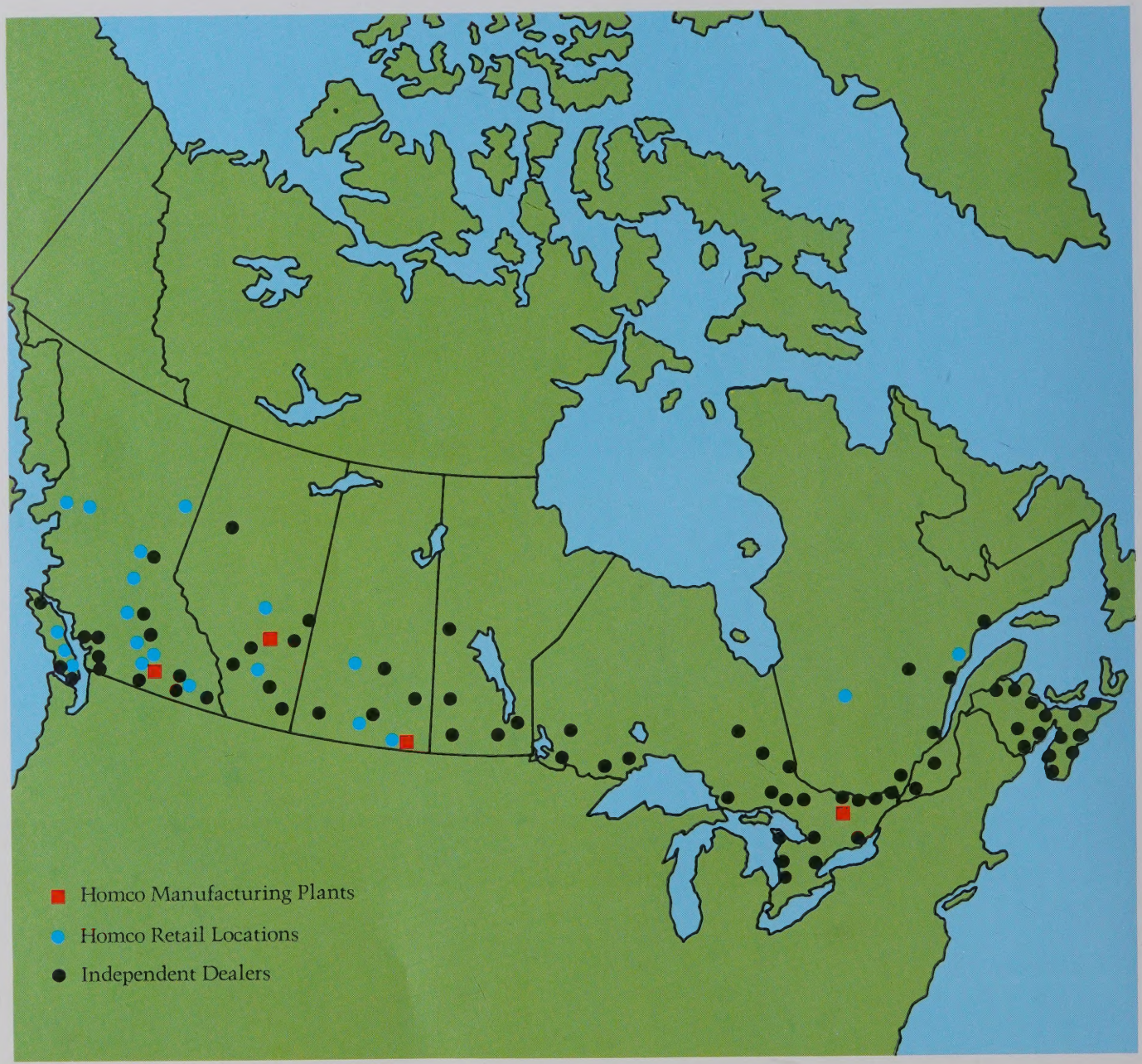
Total Units	1,741	1,548	1,082	929	636	372	235	—	—	—	—
% of Total Domestic Units .	6.1	6.0	5.3	6.2	6.8	4.1	3.7	—	—	—	—

Homco Units Produced/Units Delivered





Manufacturing Plants and Retail Locations











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